



responsible progressive accountable

QUARTERLY REPORT

For the quarter ended June 30, 2006

FINANCIAL HIGHLIGHTS

For the first quarter ended
June 30, 2006 (unaudited)

In the first quarter, the total Payment to Province was \$38.0 million, which is \$6.0 million lower than the prior year, primarily due to decreases in the Video Lottery business line.

The Video Lottery (VL) business line accounted for \$23.8 million of the Payment to Province, which is \$8.0 million lower than the previous year. The reduction in revenue resulted from the implementation of the four VLT-related Gaming Strategy initiatives.

The Ticket Lottery business line accounted for \$10.5 million of the Payment to Province, which is \$2.1 million higher than the previous year. This increase is primarily attributable to strong performance in Scratch'n Win and On-line games.

The Casino Nova Scotia, Halifax Payment to Province was \$5.3 million, which is consistent with the previous year. The Casino Nova Scotia, Sydney Payment to Province was \$2.2 million, \$0.8 million higher than the previous year, due to an increase in revenues, and lower expenses as a result of the new Casino Operating Contract.

Responsible gambling expenditures were \$1.8 million, \$0.4 million higher than the prior year, because of an increased number of initiatives launched and implemented during this period.

Win tax of \$4.4 million was deducted from casino revenues and paid directly to the Province of Nova Scotia during the quarter.

In addition to corporate initiatives aimed at promoting the responsible use of its products, the Nova Scotia Gaming Corporation (NSGC) also made financial contributions to assist in the research and treatment of problem gambling. Funding to the Nova Scotia Gaming Foundation is lower in 2006 due to a reduction in the commission rates paid to retailers and lower video lottery revenue as a result of the Gaming Strategy.

The following highlights the responsible gambling contributions:

	Quarter ended June 30, 2006	Quarter ended June 30, 2005
Nova Scotia Gaming Foundation		
<i>Video Lottery Retailers</i>	\$ 97,675	\$ 160,000
<i>Nova Scotia Gaming Corp.</i>	<u>97,675</u>	<u>160,000</u>
	195,350	320,000
Responsible Gambling Operations	645,000	110,000
Contribution to Department of Health Promotion and Protection	<u>1,000,000</u>	<u>1,000,000</u>
Total Contributions	<u>\$ 1,840,350</u>	<u>\$ 1,430,000</u>

OPERATIONAL HIGHLIGHTS

For the first quarter ended
June 30, 2006 (unaudited)

In the first quarter of 2006-07, a significant Capital Improvement Plan was completed at the Halifax Casino, which included implementation of the Ticket-in Ticket-out (TITO) technology on all slot machines, new slot machines, various systems upgrades, as well as the completion of renovations to the gaming floor. Supporting a full entertainment experience, food and beverage offerings were also enhanced with the opening of the restaurant *Trapeze* on June 1st and the renovation of the buffet, which reopened as the *Paradise Buffet*. To celebrate the completion of the Plan, the "Live the Thrill" marketing campaign was launched June 1st to promote the new entertainment offerings. In addition to these improvements, one poker tournament, the Spring Fling, was held in Halifax in May 2006 with 240 participants.

The implementation of the Capital Improvement Plan at the Sydney Casino was on target in the quarter and expected to be substantially completed in the second quarter.

On June 22, 2006 the Responsible Gambling Resource Centre was opened at the Sydney Casino. The goals of the Centre, similar to the Halifax Centre, are to provide factual information and resources to help keep players responsible and to provide linkages to treatment for those who wish to seek help with their gambling behaviour.

The Linked Bingo pilot was completed in the quarter, which is intended to assist the charitable bingo sector. Data from the pilot is being evaluated and a decision on whether or not to proceed with Phase II, which would involve an expansion to additional sites in Nova Scotia, will be made in the second quarter. Linked Bingo enables charitable organizations to offer larger bingo jackpots which increases the appeal of bingo, the proceeds of which are used by the charities to fund their community projects and good causes.

NSGC continued its commitment to responsible gambling initiatives in the first quarter by sponsoring the Nova Scotia production of *Caught in the Game*, a drama designed to increase high school students' awareness of the risks of gambling. Delivery of the drama began in April and was presented at ten high schools throughout Nova Scotia during the quarter.

Stage IV of the Responsible Gaming Device Research Project continued during the quarter and the final nine (9) Responsible Gaming Devices (RGDs) were removed from the test sites in Windsor/Mount Uniacke on June 25, 2006. Research efforts are continuing in the second quarter with results to be known in late fall 2006.

BALANCE SHEET

As at June 30, 2006 (unaudited)
(in thousands)

ASSETS

	<u>2006</u>	<u>2005</u>
Current		
Cash and Short-term Investments	\$ 10,144	\$ 16,041
Cash – restricted	7,371	2,100
Inventory, at cost	1,937	1,460
Prepays	<u>403</u>	<u>439</u>
	<u>19,855</u>	<u>20,040</u>
Long-term		
Cash – Casino Capital Replacement Reserve	1,468	3,436
Deferred charges	169	310
Investment in Atlantic Lottery Corporation Inc.	1	1
Investment in Interprovincial Lottery Corporation	1	1
Capital assets	<u>107,781</u>	<u>109,281</u>
	<u>109,420</u>	<u>113,029</u>
	<u>\$129,275</u>	<u>\$133,069</u>

LIABILITIES

Current		
Accounts payable	\$ 4,486	\$ 2,769
Deferred lottery revenue	468	437
Liabilities for unclaimed prizes	7,371	2,100
Capital obligation – current portion	13,969	37,858
Due to operators	4,356	10,558
Due to Atlantic Gaming Equipment Limited – current portion	10,757	12,798
Due to Nova Scotia Gaming Foundation	66	152
Due to Province of Nova Scotia	<u>51,014</u>	<u>31,762</u>
	<u>92,487</u>	<u>98,434</u>
Long-term		
Due to Atlantic Gaming Equipment Limited	6,699	14,595
Capital obligation	<u>20,235</u>	<u>10,937</u>
	<u>26,934</u>	<u>25,532</u>

EQUITY

Casino Capital Replacement Reserve	<u>9,854</u>	<u>9,103</u>
	<u>\$129,275</u>	<u>\$133,069</u>

Statement of Income and Payment to Province

For the First Quarter Ended June 30, 2006 (unaudited)
(in thousands)

	2006							2005						
	LOTTERIES		CASINOS		RES. GAMBLING	OTHER	TOTAL	LOTTERIES		CASINOS		RES. GAMBLING	OTHER	TOTAL
	Ticket Lottery	Video Lottery	HFX	SYD			1 st Quarter and Year to Date	Ticket Lottery	Video Lottery	HFX	SYD			1 st Quarter and Year to Date
Revenues	\$56,572	\$39,136	\$18,898	\$5,685	\$ -	\$ 515	\$120,806	\$50,146	\$49,254	\$18,670	\$ 5,145	\$ -	\$ 61	\$123,276
Expenses	<u>46,031</u>	<u>15,319</u>	<u>16,919</u>	<u>4,506</u>	<u>1,840</u>	<u>2,574</u>	<u>87,189</u>	<u>41,791</u>	<u>17,400</u>	<u>16,652</u>	<u>4,705</u>	<u>1,430</u>	<u>1,571</u>	<u>83,549</u>
Net Income	10,541	23,817	1,979	1,179	(1,840)	(2,059)	33,617	8,355	31,854	2,018	440	(1,430)	(1,510)	39,727
Win Tax	<u>-</u>	<u>-</u>	<u>3,362</u>	<u>1,034</u>	<u>-</u>	<u>-</u>	<u>4,396</u>	<u>-</u>	<u>-</u>	<u>3,347</u>	<u>953</u>	<u>-</u>	<u>-</u>	<u>4,300</u>
Payment to Province	<u>\$10,541</u>	<u>\$23,817</u>	<u>\$ 5,341</u>	<u>\$2,213</u>	<u>\$ (1,840)</u>	<u>\$(2,059)</u>	<u>\$ 38,013</u>	<u>\$ 8,355</u>	<u>\$31,854</u>	<u>\$ 5,365</u>	<u>\$ 1,393</u>	<u>\$(1,430)</u>	<u>\$(1,510)</u>	<u>\$ 44,027</u>

Statement of Retained Earnings

For the First Quarter Ended June 30, 2006 (unaudited)
(in thousands)

	2006	2005
	1 st QUARTER & YEAR TO DATE	1 st QUARTER & YEAR TO DATE
Retained earnings, beginning of period	\$ -	\$ -
Net income	33,617	39,727
Net income paid to Province	(33,617)	(39,727)
Retained earnings, end of period	\$ -	\$ -

STATEMENT OF CASH FLOW

For the first quarter ended
June 30, 2006 (unaudited)
(in thousands)

	<u>2006</u>	<u>2005</u>
Operating		
Net Income	\$ 33,617	\$ 39,727
Allocation of income to Province	(33,617)	(39,727)
Amortization	4,367	4,862
Net changes in working capital	<u>8,901</u>	<u>4,189</u>
	<u>13,268</u>	<u>9,051</u>
Financing		
Decrease in obligation to Atlantic Gaming Equipment Limited	(2,102)	(1,966)
Reduction of capital obligation	<u>(4,621)</u>	<u>(3,347)</u>
	<u>(6,723)</u>	<u>(5,313)</u>
Investing		
Purchases of capital assets	(8,473)	(2,025)
Decrease in Casino Capital Replacement Reserve, net of cash	<u>1,220</u>	<u>240</u>
	<u>(7,253)</u>	<u>(1,785)</u>
Net (decrease)/increase in cash & cash equivalents	(708)	1,953
Cash, beginning of quarter	<u>10,852</u>	<u>14,088</u>
Cash, end of quarter	\$ <u>10,144</u>	\$ <u>16,041</u>

CERTIFICATION

For the first quarter ended
June 30, 2006 (unaudited)

I have evaluated the effectiveness of NSGC's disclosure controls and procedures as of the end of the period covered by the Quarterly Report and conclude that such disclosure controls and procedures have been effective.

(signed)

Marie T. Mullally, C.A.
President & CEO

(signed)

Robert MacKinnon, C.A.
Director, Corporate Services